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BEFORE THE ARIZONA CORPORATION COMMISSION

AZ CORP COMMISSION
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WILLIAM A. MUNDELL
CHAIRMAN
JIM IRVIN
COMMISSIONER
MARC SPITZER
COMMISSIONER

IN THE MATTER OF THE)
APPLICATION OF LITCHFIELD PARK) DOCKET NO. W-01427A-01-0487
SERVICE COMPANY FOR AN) DOCKET NO. WS-01428A-01-0487
INCREASE IN ITS WATER AND)
WASTEWATER RATES FOR)
CUSTOMERS WITHIN MARICOPA) NOTICE OF FILING
COUNTY, ARIZONA) SURREBUTTAL TESTIMONY

City of Litchfield Park, Intervenor in this action, by and through its attorneys,
hereby files the Surrebittal Testimony of Mark Cicchetti, Consultant on behalf of the City of
Litchfield Park.

Respectfully submitted this 28th day of August, 2002.

MARTINEZ & CURTIS, P.C.

William P. Sullivan, Esq.

Paul R. Michaud, Esq.

2712 North Seventh Street

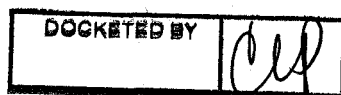
Phoenix, Arizona 85006-1090

Attorneys for City of Litchfield Park

Arizona Corporation Commission

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**PROOF OF SERVICE AND
CERTIFICATE OF MAILING**

I hereby certify that on this 28th day of August, 2002, I caused the foregoing document to be served on the Arizona Corporation Commission by hand-delivering the original and ten (10) copies of said document to:

Docket Control
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

With copies of the foregoing hand-delivered this 28th day of August, 2002 to:

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BEFORE THE ARIZONA CORPORATION COMMISSION

WILLIAM A. MUNDELL
CHAIRMAN
JIM IRVIN
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MARC SPITZER
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IN THE MATTER OF THE)
APPLICATION OF LITCHFIELD) DOCKET NO. W-01427A-01-0487
PARK SERVICE COMPANY FOR) DOCKET NO. WS-01428A-01-0487
AN INCREASE IN ITS WATER)
AND WASTEWATER RATES FOR)
CUSTOMERS WITHIN MARICOPA)
COUNTY, ARIZONA)

SURREBUTTAL TESTIMONY OF
MARK CICCHETTI
ON BEHALF OF
CITY OF LITCHFIELD PARK, INTERVENOR

AUGUST 28, 2002

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MARK CICCHETTI

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I. INTRODUCTION

Q. PLEASE STATE YOUR NAME AND ADDRESS.

A. My name is Mark Anthony Cicchetti and my business address is 2931 Kerry Forest Parkway, Suite 202, Tallahassee, Florida 32309.

Q. ARE YOU THE SAME MARK CICCHETTI THAT FILED DIRECT TESTIMONY IN THIS DOCKET?

A. Yes, I am

II. PURPOSE

Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?

A. The purpose of my surrebuttal testimony is to respond to the rebuttal testimonies of David W. Ellis and Dan L. Neidlinger and Ms. Marylee Diaz Cortez.

III. HOOK-UP FEES/ADVANCES

Q. IN HIS REBUTTAL TESTIMONY (ELLIS REBUTTAL, PAGE 4, LINE 4), MR. ELLIS CLAIMS THE HOOK-UP FEES YOU ARE RECOMMENDING WILL RESULT IN AN OVER RELIANCE OF CONTRIBUTED CAPITAL AND LEAD TO AN UNHEALTHY COMPANY. WILL THE HOOK-UP FEES YOU ARE RECOMMENDING LEAD TO AN UNHEALTHY COMPANY?

A. No. A \$300 hook-up fee for water customers represents a 15% contribution and would not cause LPSCO to be an unhealthy company as claimed by Mr. Ellis. In fact, in its' last rate case, LPSCO requested a \$295 water hook-up fee. Regarding the hook-up fee for wastewater service, Mr. Ellis claims a \$1,500 contribution would result in no sewer rate base at all (Ellis rebuttal, p. 4, l. 7).

1
2 However, per the settlement agreement, LPSCO has \$8.7 million dollars in rate
3 base and is in the process of adding approximately \$18 million of additional
4 wastewater plant. It should also be noted that LPSCO proposed a \$950 hook-
5 up, as a contribution in its' last rate case.

6 LPSCO, conservatively, is expected to add 600 customers per year.
7 Requiring hook-up fees be contributed to LPSCO for use in financing future
8 backbone plant will help minimize LPSCO's financing requirements and will
9 help place the cost of growth on the customer's responsible for that growth.
10 The Residential Utility Consumer Office ("RUCO") does not oppose the hook-
11 up fees proposed by LPSCO. (Diaz Cortez Rebuttal, p. 10, ll. 1-11.)
12

13 **Q. MR. ELLIS STATES THAT DEVELOPERS INSIDE THE CC&N**
14 **SHOULD NOT BE TREATED THE SAME AS DEVELOPERS**
15 **OUTSIDE THE CC&N (ELLIS REBUTTAL, PAGE 4, LINE 11). DO**
16 **YOU AGREE WITH THAT?**

17 **A.** No. Mr. Ellis states the reason for requiring developers that are joining the
18 CC&N to advance the entire infrastructure cost associated with their
19 developments is to protect existing customers. Existing customers should be
20 protected from the costs of growth to the greatest extent possible whether the
21 growth is within the CC&N or outside the CC&N. Requiring all developers to
22 advance the cost of infrastructure extensions will help protect existing
23 customers and help place the cost of growth on the cost-causers.
24
25
26

1
2 **Q. PLEASE EXPLAIN HOW LPSCO'S POLICY OF PAYING FOR**
3 **BACKBONE FACILITIES WITHIN ITS CERTIFICATED AREA, BUT**
4 **REQUIRING DEVELOPERS OUTSIDE OF ITS CERTIFICATED**
5 **AREA TO PAY FOR BACKBONE FACILITIES AS A CONDITION OF**
6 **INCLUSION WITHIN LPSCO'S CC&N FAILS TO ADEQUATELY**
7 **"PROTECT EXISTING CUSTOMERS".**

8 A. "Existing" LPSCO customers currently only inhabit a relatively small portion
9 of the existing CC&N. Therefore, a policy intended to protect existing
10 customers, but based upon the boundary of the CC&N is inadequate. Exhibit
11 MAC-2 to my Direct Testimony depicted the vast portions of the LPSCO
12 certificated area that was originally owned by SunCor. The non-owned area in
13 Sections 21, 22, 27 and 28, are now largely within the City of Litchfield Park.
14 It is my understanding that most, if not all of LPSCO's water system and
15 customers were located in the City when SunCor acquired LPSCO. During the
16 1990's SunCor master planned approximately 9,000 acres as the Palm Valley
17 Development. SunCor then began actively developing Section 34 as Palm
18 Valley. SunCor also actively developed Section 29 as a joint venture. This
19 development is called Pebble Creek.

20 Attached, as Surrebuttal Exhibit MAC-4 is LPSCO's response to City
21 Data Request LP - 3.1 identifying the actual location of LPSCO's water and
22 sewer customers at the end of the test year. The vast majority of LPSCO's
23 customers are located in three sections. 1,760 water and 1,600 sewer
24 customers are located in Section 22 (the City). 1,1884 water and 1,852 sewer
25 customers are located in Section 29 (Pebble Creek). An additional 1,584 water
26 and 1,528 sewer customers are located in Section 34 (Palm Valley). There are

1
2 95 water and 87 sewer customers located in the SW quarter of Section 23 (Bel
3 Fleur); 30 water and 14 sewer customers located in the NW quarter of Section
4 30 (the next phase of Pebble Creek); 20 water and 15 sewer customers located
5 in the NE quarter of Section 28 (development by Fulton Homes); and 12 water
6 and 9 sewer customers in the NW quarter of Section 27. There is one sewer
7 customer located in Section 20, another located in Section 33 and another
8 located in the SE quarter of Section 30.

9 Therefore, a policy intended to protect existing customers would not use
10 the CC&N boundary to determine its application. In fact, such a policy would
11 have required the developer of Palm Valley and Pebble Creek (development
12 with which SunCor is actively involved) to advance or contribute a significant
13 portion of the backbone system installed to serve these two developments.
14

15 **Q. IS LPSCO CONTINUING TO EXPAND ITS FACILITIES TO SERVE**
16 **NEW DEVELOPMENTS?**

17 **A.** In response to RUCO data request 5-3, LPSCO identified 9 residential
18 developments and 4 commercial developments under active development
19 within its certificated area at the end of the test year. The residential
20 developments represent an estimated 8,931 additional customers. The
21 response to RUCO's data request 5-3 is attached as Surrebuttal Exhibit MAC-
22 5. The deposition of Mr. Appleyard disclosed that additional developments
23 were and are being pursued within LPSCO's CC&N.

24 Surrebuttal Exhibits MAC-6 and MAC-7, attached to this Surrebuttal
25 Testimony are one-line diagrams of LPSCO's water and sewer systems,
26 respectively. The numbers reflected on the Exhibits show the approximate

location of capital projects placed into rate base since the last LPSCO rate case. Surrebuttal Exhibit MAC-8 provides a listing and brief description of each capital project. At least 6 of the water projects (Numbers 10, 20, 27, 31, 33 and 37), will assist with the delivery of water service to SunCor's Palm Valley Phase II, a 1,200 person residential development in Section 33. Similarly, the installation of a new well in Section 20 (Project 11) and the installation of a 24-inch line in Section 20 (Project 19) will aid the development of the second phase of Pebble Creek planned for Sections 30 and 31.

If the policy used to determine the degree of advances is designed to protect "existing" customers, the same policy used for developments requesting LPSCO to extend its certificated area should be applied to developments that require expansion of the system within LPSCO's CC&N.

IV. LPSCO/SUNCOR RELATIONSHIP

Q. REGARDING CONCERNS ARISING FROM THE LPSCO/SUNCOR RELATIONSHIP, MR. ELLIS STATES: "THE REAL QUESTION TO BE ANSWERED ISN'T; IS THERE POTENTIAL FOR ABUSE, BUT WAS THERE ANY ACTUAL ABUSE?" (ELLIS REBUTTAL, PAGE 6, LINE 22) DO YOU AGREE THE COMMISSION SHOULD NOT BE CONCERNED WITH THE POTENTIAL FOR ABUSE?

A. No. LPSCO has established a policy that requires developers outside the CC&N to advance the entire infrastructure cost associated with their developments to protect existing customers while developers inside the CC&N do not have the same requirement. SunCor owns the vast majority of the land within LPSCO's CC&N. In fact, SunCor is developing approximately 9,000 acres within LPSCO's CC&N and is the major developer in the area. Why

1
2 should developers outside the CC&N be required to advance infrastructure
3 costs to protect existing customers while developers inside the CC&N are not
4 required to advance infrastructure costs to protect existing customers?

5 Furthermore, I listed examples from the Agreements between SunCor
6 and purchasers of SunCor's property where SunCor made commitments
7 relating to water and sewer service for which LPSCO received no
8 consideration. These reflect actual activities of SunCor. Contrary to the
9 positions of Mr. Ellis, Neidlinger and Ms. Diaz Cortez, the City believes it is
10 extremely important for the ACC to protect the ratepayers against both the
11 actual and potential abuses that can occur in such transactions. One will never
12 know what LPSCO, if not controlled by SunCor, could have secured in the
13 way of advances or other consideration in return of its commitment to serve
14 these new developments, to provide notices of intent to serve and to assist the
15 purchasers with their filings at ADWR. We do know that LPSCO received
16 nothing for the commitments made by SunCor.

17
18 **Q. HAVE YOU HAD AN OPPORTUNITY TO FURTHER REVIEW**
19 **THESE DOCUMENTS AND HAVE ADDITIONAL CONCERNS BEEN**
20 **RAISED AS A RESULT OF THAT REVIEW?**

21 **A.** Yes. For example, a provision in a 1997 Trust Agreement between SunCor
22 and a developer provides LPSCO an option to require all onsite water and
23 sewer facilities constructed by the developer on the property to be contributed
24 or advanced. LPSCO elected to enter into an Advance-In-Aid-Of-Construction
25 Agreement for the water facilities. This same Agreement requires the
26 developer to pay SunCor any and all funds received by the developer from

1
2 LPSCO. Thus, as advances are repaid and plant is placed into rate base, the
3 refunds paid under the AIAC Agreement are ultimately paid to SunCor. This
4 particular Agreement was not entered into until well after the facilities were
5 constructed. According to LPSCO, the facilities related to this Agreement are
6 not yet placed in rate base. However, the Commission should protect
7 ratepayers from a practice where the water company enters into an AIAC
8 Agreement, on the one hand, to pay refunds to a developer and, on the other
9 hand, has the developer agree to pay all such funds to the owner of the water
10 company. Additionally, both in a 1998 Agreement and a 1999 Agreement,
11 SunCor (not LPSCO), in return for providing a warranty that wastewater
12 treatment capacity would be available to the development, is to receive \$2,000
13 for each house constructed within the property as a "wastewater treatment fee".
14 To our knowledge no wastewater treatment fee has been requested or approved
15 for LPSCO. In fact, the sewer hook-up fee is only \$1,500. One of these
16 Agreements alone involved 105 homes representing \$210,000.

17 The City's proposal to require contributed hook-up fees payable to
18 LPSCO will ensure that these payments are treated as contributed capital to
19 LPSCO.

20
21 **Q. MR. ELLIS SUGGESTS THAT MR. APLEYARD IN HIS**
22 **CAPACITIES AS BOTH VICE PREISDENT AND TREASURER FOR**
23 **LPSCO AND VICE PRESIDENT AND CHIEF FINANCIAL OFFICER**
24 **FOR SUNCOR DOES NOT MAKE FINANCIAL DECISIONS FOR**
25 **LPSCO REGARDING EQUITY, DEBT, ADVANCES OR**
26

**CONTRIBUTIONS (ELLIS REBUTTAL, PAGE 7, LINE 21). IS THIS
CONSISTENT WITH MR. APLEYARD'S DEPOSITION?**

A. Mr. Appleyard indicated at his deposition, that he was ultimately responsible for the operations of Litchfield Park Service Company (p. 7, l. 24 – p. 8, l. 1) and that he gets involved as needed on large business decisions and financings (p. 8, ll. 6-7). Mr. Appleyard further indicated that decisions regarding financing new construction are something he oversees in his duties as vice-president and treasurer of LPSCO (p. 24, l. 23 – p. 25, l. 5).

V. EXCESS CAPACITY IN THE LPSCO SYSTEM

**Q. MR. ELLIS STATES THERE IS NO EXCESS CAPACITY IN THE
LPSCO SYSTEM AT THE END OF THE TEST YEAR (ELLIS
REBUTTAL, PAGE 10, LINE 12). IS THIS ENTIRELY ACCURATE?**

A. No. There are 30", 24" and 20" transmission mains and 16" distribution mains that can supply a population base above what is currently being served. Although there is a need to expand supply to accommodate additional customers, the installed transmission and distribution infrastructure is designed to serve future additional customers. As shown on Surrebuttal Exhibit MAC-6 and MAC-8, approximately \$750,000 of transmission and distribution line (Projects 10, 20, 33 and 35) were installed primarily to allow LPSCO to serve Section 33 (Palm Valley Phase II) where no customers existed at the end of the test year. There are a number of additional projects that appear to be designed primarily to meet future growth even though they may also provide some benefit to existing customers (e.g., Projects 11, 19, 27, 31 and 37). It is normal practice to build water and wastewater systems to serve entire developments, but where plant in service exceeds the needs of existing customers the costs

associated with excess plant in service should be placed on the future customers responsible for the growth.

VI. AFPI

Q. REGARDING YOUR RECOMMENDED ALLOWANCE FOR FUNDS PRUDENTLY INVESTED ("AFPI") METHODOLOGY MR. ELLIS STATES: "THE LPSCO CALCULATIONS IN ATTACHMENT DWE-4 DEMONSTRATES THE FATAL FLAW THAT CAN HAPPEN WHEN ONE COMPONENT (OR DEFINITION OF CAPACITY) IS ERRONEOUSLY USED TO MAKE SWEEPING ASSUMPTIONS ABOUT THE ENTIRE WATER SYSTEM." (ELLIS REBUTTAL, PAGE 12, LINE 22). HOW DO YOU RESPOND?

A. The purpose of the AFPI charge is to place prudent plant costs associated with expected growth on the future customers that will be served by that plant to protect current customers from bearing those costs in current rates. The City, both orally and in writing, requested LPSCO to quantify the capacity of the water plant in the settlement rate base in terms of residential equivalent units. LPSCO's stated inability to provide this information, required assumptions be made regarding these factors. We used the testimony of Mr. Ellis to minimize debate regarding this information.

Q. REGARDING THE AFPI METHOD, MR. NEIDLINGER STATES, THAT: "...ANY ATTEMPT TO ASSIGN PLANT AND RELATED COSTS TO "TODAY'S" CUSTOMERS VERSUS "TOMORROW'S" CUSTOMERS IS ILLOGICAL AND CIRCUTIOUS SINCE "TOMORROW'S" CUSTOMERS QUICKLY BECOME "TODAY'S"

**CUSTOMERS.” (NEIDLINGER REBUTTAL, PAGE 4, LINE 20) DO
YOU AGREE?**

A. No. It is common for water and wastewater utilities to design the size of lines, treatment facilities and wells to accommodate expected growth. Furthermore, allocating plant costs is a common practice in regulation even though it is generally accepted that no allocation methodology is perfect. Given good engineering and accounting records, it is not unreasonable to identify and allocate plant associated with expected growth. Tomorrow’s customers do not become today’s customers until tomorrow. The AFPI method simply allows the company to earn a return on prudently constructed plant from the future customers to be served by that plant. Another alternative used by regulatory commissions is to exclude the excess plant entirely and provide no recovery until the next rate case. Such an approach places a much greater burden on the stockholders and tends to encourage building minimum systems. In fact, according to Ms. Diaz Cortez (Diaz Cortez Rebuttal, p. 6, ll. 14-18), the Commission has used this total exclusion approach in past rate cases involving LPSCO. The AFPI allows recovery, including a carrying cost, from the customers as they connect to the system, rather than awaiting a future rate case.

**Q. MR. NEIDLINGER STATES THAT BY THE TIME REVISED RATES
ARE IMPLEMENTED IN THIS CASE, AT LEAST 1200 FUTURE
CUSTOMERS WILL HAVE BECOME CURRENT CUSTOMERS
LEAVING ONLY 319 CUSTOMERS TO CARRY THE REVENUE
REQUIREMENT (NEIDLINGER REBUTTAL, PAGE 4, LINE 3. IS
THIS CORRECT?**

1
2 A. It is true that additional customers have come on line since the end of the test
3 year. However, the adjusted test year is assumed to be representative of
4 current conditions. It is also true that rates will be collected from 1200 more
5 customers than are assumed in the test year. Additionally, it is expected that
6 LPSCO will continue to add 600 customers per year.

7
8 **Q. MR. NEIDLINGER CLAIMS THE AFPI METHOD RESULTS IN**
9 **RETROACTIVE RATEMAKING AND IS DISCRIMINATORY**
10 **(NEIDLINGER REBUTTAL, PAGE 4, LINE 11). DO YOU AGREE?**

11 A. No. Retroactive ratemaking is defined as the adjustment of current rates to
12 account for past gains or losses or over or under-recoveries. AFPI charges are
13 designed to be recovered prospectively based on expected carrying costs.
14 Furthermore, AFPI charges are not discriminatory because they are based on
15 the additional cost incurred to serve future customers.

16
17 **Q. MR. NEIDLINGER STATES THAT: "IF AN EXCESS CAPACITY**
18 **ADJUSTMENT WERE APPROPRIATE, WHICH IT IS CLEARLY**
19 **NOT IN THIS CASE, IT SHOULD BE APPLIED ONLY TO THOSE**
20 **SPECIFIC COMPONENTS OF UTILITY PLANT THAT HAVE**
21 **ABNORMALLY HIGH CAPACITIES." DO YOU AGREE?**

22 A. It is appropriate to apply an excess capacity adjustment to the specific
23 components of utility plant that have excess capacity. As explained above, it
24 was necessary to make certain assumptions because LPSCO indicated it was
25 unable to provide certain data requested in this proceeding. The attached
26 Surrebuttal Exhibits MAC-1, MAC-2 and MAC-3, correct the REU

transposition error pointed out by Messrs. Ellis and Neidlinger and incorporates the depreciation rate for water plant. The AFPI earnings expansion factor for tax, contrary to Mr. Neidlinger's assertion, is correct and reflects the gross-up necessary for the return component.

VII. INVESTMENT/FINANCING PLANT

Q. REGARDING THE INCREASE, OVER TIME, IN LPSCO'S INVESTMENT IN WATER AND WASTEWATER ASSETS PER CUSTOMER, MS. DIAZ CORTEZ STATES: "THERE ARE A MYRIAD OF REASONS WHY THE COST OF WATER AND SEWER SERVICE HAS INCREASED OVER THE PAST YEARS." (DIAZ CORTEZ REBUTTAL, PAGE 5, LINE 9) DO YOU AGREE?

A. Yes. Obviously, inflation and the cost of environmental compliance have increased costs for the water and wastewater industry, in general. However, such costs do not explain a 350% increase in the amount of water and wastewater investment per customer since 1993. Ms. Diaz Cortez goes on to justify a tenfold increase in environmental costs as being attributable to LPSCO's new state-of-the-art plant. However, that plant is not part of this rate case and is not part of the cited 350% increase in the amount of water and wastewater investment per customer since 1993.

Q. MS. DIAZ CORTEZ STATES THAT: "...WHEREAS THE USE OF AIAC AND CIAC FOR FINANCING PLANT ADDITIONS IS THE LEAST COST METHOD, ITS OVER USE RESULTS IN CASH FLOW PROBLEMS AND AN INABILITY FOR THE UTILITY TO GENERATE INCOME." DO YOU AGREE?

1
2 A. In general, yes. However, the level of AIAC or CIAC that could cause a
3 problem varies based on a particular company's circumstances. The fact that
4 low cost or cost free capital is available to a utility does not in and of itself
5 cause a problem. For example, the Florida Public Service Commission
6 encourages utilities to have up to 75% CIAC to provide a source of capital and
7 keep financing costs low. I agree a utility should have a meaningful
8 investment in its' facilities to maintain financial integrity and help ensure the
9 management has an interest in providing good quality service. However,
10 having AIAC or CIAC above the approximately 18% that LPSCO has, is not
11 by definition, detrimental. In fact, the Florida Commission requires the
12 minimum amount of CIAC be not less than the percentage of such facilities
13 and plant that is represented by the water transmission and distribution and
14 sewage collection systems.

15 **VIII. CONCLUSION**

16 **Q. PLEASE SUMMARIZE YOUR SURREBUTTAL TESTIMONY.**

17 A. Regarding hook-up fees, a \$300 hook-up fee for water customers represents a
18 15% contribution and would not cause LPSCO to be an unhealthy company as
19 claimed by Mr. Ellis. In fact, in its' last rate case, LPSCO requested a \$295
20 water hook-up fee. Regarding the hook-up fee for wastewater service, Mr.
21 Ellis claims a \$1,500 contribution would result in no sewer rate base at all.
22 However, per the settlement agreement, LPSCO has \$8.7 million dollars in rate
23 base and is in the process of adding approximately \$18 million of additional
24 wastewater plant. It should also be noted that LPSCO proposed a \$950 sewer
25 hook-up fee in its' last rate case before the \$18 million addition was
26 considered. Moreover, the City's recommendation is consistent with Staff's

1
2 pre-filed testimony at page 5, where Marlin Scott recommended, "the
3 Wastewater Off-Site Facilities Hook-Up Fee Tariff be approved with non-
4 refundable language and annual reporting requirements submitted to the
5 Commission." LPSCO did not contest this recommendation in either its'
6 rebuttal testimony or rejoinder testimony.

7 Regarding the relationship between LPSCO and SunCor, LPSCO has
8 established a policy that requires developers outside the CC&N advance the
9 entire infrastructure cost associated with their developments to protect existing
10 customers while developers inside the CC&N do not have the same
11 requirement. SunCor owns or owned the vast majority of the land within the
12 approximately 11,000 acres encompassed by LPSCO's CC&N and has master
13 planned and is actively developing approximately 9,000 acres within LPSCO's
14 CC&N. In fact, it is SunCor's development of a portion of LPSCO's CC&N
15 that, to date, has been the primary area of growth within LPSCO's CC&N.
16 Why should developers outside the CC&N be required to advance
17 infrastructure costs to protect existing customers while developers, and in
18 particular SunCor, inside the CC&N are not required to advance infrastructure
19 costs to protect existing customers?

20 Regarding the recommended AFPI charge, contrary to Mr. Neidlinger's
21 claims, the AFPI charge is neither retroactive ratemaking nor discriminatory.
22 The AFPI method simply allows the company to earn a return on prudently
23 constructed plant from the future customers to be served by that plant.

24 Regarding Ms. Diaz Cortez's rebuttal testimony, additional AIAC or
25 CIAC on a going forward basis, is not necessarily detrimental to LPSCO.
26

SURREBUTTAL TESTIMONY OF MARK CICCHETTI ON BEHALF OF
THE CITY OF LITCHFIELD PARK, INTERVENOR
DOCKET NOS. W-01427A-01-0487 and WS-01428A-01-0487
PAGE 15

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Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?

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A. Yes.

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Surrebuttal Exhibit MAC-1

LITCHFIELD PARK SERVICE COMPANY

Surrebuttal Summary - Water

Description	Per Settlement	City of Litchfield Park
Rate Base	\$5,909,975	\$4,638,572
Rate of Return Requirement	8.535%	8.535%
Required Operating Income	\$504,416	\$395,902
Operating Income Deficiency	\$432,685	\$324,171
Revenue Conversion Factor	1.6834	1.6834
Increase in Gross Revenue	\$728,383	\$545,709

**Allowance for Funds Prudently Invested
Calculation of Carrying Costs for Each REU:**

Cost of Qualifying Assets:	\$ 1,271,403	Annual Depreciation Expense:	\$ 45,261
Divided By Future REU:	1,519	Future REU's:	1,519
Cost/REU:	\$ 837.00	Annual Depr. Cost per REU:	\$ 29.80
Multiply By Rate of Return:	8.54%		
Annual Return Per REU:	\$ 71.44	Annual Property Tax Expense:	\$ 32,418
Annual Reduction in Return:	\$ 2.54	Future REU's:	1,519
(Annual Depreciation Expense per REU Times Rate of Return)		Annual Prop. Tax per REU:	\$ 21.34
Federal Tax Rate:	31.63%	Weighted Cost of Equity:	7.05%
Effective State Tax Rate:	4.76%	Divided by Rate of Return:	8.54%
Total Tax Rate:	36.39%	% of Equity in Return:	82.60%
Effective Tax on Return:	30.06%	Other Costs:	\$ 0
(Equity % Times Tax Rate)		Future REU's:	1,519
Provision For Tax:	47.26%	Cost per REU:	\$ 0.00
(Tax on Return/(1-Total Tax Rate))			

Allowance for Funds Prudently Invested
Calculation of Carrying Costs for Each REU:

Information Needed

1.	Cost of Qualifying Assets	\$	1,271,403
2.	Capacity of Qualifying Assets		991,907 GPD
3.	Number of Future Customers		1,519 REU
4.	Annual Depreciation Expense	\$	45,261
5.	Rate of Return		8.54%
6.	Weighted Cost of Equity		7.05%
7.	Federal Income Tax Rate		31.63%
8.	State Income Tax Rate		6.97%
9.	Annual Property Tax	\$	32,418
10.	Other Costs	\$	0
11.	Depreciation Rate of Assets		3.56%
12.	Test Year		2000

Allowance for Funds Prudently Invested
Calculation of Carrying Costs for Each REU:

	2000	2001	2002	2003	2004
	----	----	----	----	----
Unfunded Other Costs:	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Unfunded Annual Depreciation:	29.80	29.80	29.80	29.80	29.80
Unfunded Property Tax:	21.34	21.34	21.34	21.34	21.34
	-----	-----	-----	-----	-----
Subtotal Unfunded Annual Expense:	\$ 51.14	\$ 51.14	\$ 51.14	\$ 51.14	\$ 51.14
Unfunded Expenses Prior Year:	0.00	51.14	102.28	153.41	204.55
	-----	-----	-----	-----	-----
Total Unfunded Expenses:	\$ <u>51.14</u>	\$ <u>102.28</u>	\$ <u>153.41</u>	\$ <u>204.55</u>	\$ <u>255.69</u>
	-----	-----	-----	-----	-----
Return on Expenses Current Year:	4.36	4.36	4.36	4.36	4.36
Return on Expenses Prior Year:	0.00	4.36	8.73	13.09	17.46
Return on Plant Current Year:	71.44	68.90	66.35	63.81	61.27
Earnings Prior Year:	0.00	71.44	150.79	238.74	336.02
Compound Earnings from Prior Year:	0.00	6.10	12.87	20.38	28.68
	-----	-----	-----	-----	-----
Total Compounded Earnings:	\$ 71.44	\$ 150.80	238.74	336.02	443.43
Earnings Expansion Factor for Tax:	1.47	1.47	1.47	1.47	1.47
	-----	-----	-----	-----	-----
Revenue Required to Fund Earnings:	\$ 105.20	\$ 222.07	\$ 351.57	\$ 494.83	\$ 653.01
Revenue Required to Fund Expenses:	51.14	102.28	153.41	204.55	255.69
	-----	-----	-----	-----	-----
Subtotal:	\$ 156.34	\$ 324.35	\$ 504.98	\$ 699.38	\$ 908.70
Divided by Factor for Regulatory Assessment Fee	1	1	1	1	1
	-----	-----	-----	-----	-----
REU Carrying Cost for 1 Year:	\$ <u>156.34</u>	\$ <u>324.35</u>	\$ <u>504.98</u>	\$ <u>699.38</u>	\$ <u>908.70</u>

Allowance for Funds Prudently Invested
Calculation of Carrying Cost Per REU Per Month:

	2000 -----	2001 -----	2002 -----	2003 -----	2004 -----	2005 -----
January	13.03	170.34	339.40	521.18	716.82	908.70
February	26.06	184.35	354.46	537.38	734.27	908.70
March	39.09	198.35	369.51	553.58	751.71	908.70
April	52.11	212.35	384.56	569.78	769.15	908.70
May	65.14	226.35	399.61	585.98	786.60	908.70
June	78.17	240.35	414.67	602.18	804.04	908.70
July	91.20	254.35	429.72	618.38	821.48	908.70
August	104.23	268.35	444.77	634.58	838.93	908.70
September	117.26	282.35	459.82	650.78	856.37	908.70
October	130.29	296.35	474.88	666.98	873.81	908.70
November	143.32	310.35	489.93	683.18	891.26	908.70
December	156.34	324.35	504.98	699.38	908.70	908.70

CITY OF LITCHFIELD PARK PROPOSAL
WATER DIVISION
Test Year Ended December 31, 2000

SUMMARY OF WATER REVENUES AT PRESENT AND PROPOSED RATES

DESCRIPTION	REVENUES IN THE TEST YEAR (1)		CITY OF LITCHFIELD PARK PROPOSAL	AMOUNT	INCREASE PERCENT
	PRESENT	PROPOSED IN ORIGINAL FILING			
3/4" Meters (2)	\$740,155	\$1,107,543	\$950,025	\$209,870	28.35%
1" Meters	373,582	562,428	\$482,438	\$108,856	29.14%
1 1/2" Meters	99,593	151,178	\$129,677	\$30,084	30.21%
2" Meters	301,345	457,671	\$392,580	\$91,235	30.28%
4" Meters	67,554	102,965	\$88,321	\$20,767	30.74%
10" Meters	17,634	26,885	\$23,061	\$5,427	30.78%
Hydrant Sales	22,000	73,500	\$73,500	\$51,500	234.09%
Total Metered Sales	1,621,863	2,482,170	2,139,602	517,739	31.92%
Other Revenues	61,740	77,270	77,270	15,530	25.15%
Total Water Revenues	\$1,683,603	\$2,559,440	\$2,216,872	\$533,269	31.67%

NOTES:

(1) Including Revenue Pro Forma Adjustments

(2) Includes 5/8"x3/4" Meters

**CITY OF LITCHFIELD PARK PROPOSAL
WATER DIVISION
Test Year Ended December 31, 2000**

PROPOSED CHANGES IN WATER RATES

DESCRIPTION	PRESENT RATE	ORIGINAL FILING PROPOSED RATE	SETTLEMENT RATES	CITY PROPOSED RATE
5/8" x 3/4" METERS:				
Monthly Service Charge	\$5.20	\$7.30	\$6.75	\$6.30
Rate Per 1,000 - First 5,000	0.63	1.02	0.87	0.85
Rate Per 1,000 - All Usage Over 5,000	0.88	1.36	1.32	1.14
3/4" METERS:				
Monthly Service Charge	\$6.40	\$9.00	\$8.30	\$7.77
Rate Per 1,000 - First 5,000	0.63	1.02	0.87	0.85
Rate Per 1,000 - All Usage Over 5,000	0.88	1.36	1.32	1.14
1" METERS:				
Monthly Service Charge	\$11.25	\$15.90	\$14.60	\$13.73
Rate Per 1,000 - First 5,000	0.63	1.02	0.87	0.85
Rate Per 1,000 - All Usage Over 5,000	0.88	1.36	1.32	1.14
1 1/2" METERS:				
Monthly Service Charge	\$22.00	\$31.25	\$28.60	\$26.98
Rate Per 1,000 - First 5,000	0.63	1.02	0.87	0.85
Rate Per 1,000 - All Usage Over 5,000	0.88	1.36	1.32	1.14
2" METERS:				
Monthly Service Charge	\$43.70	\$62.95	\$56.50	\$54.36
Rate Per 1,000 - First 5,000	0.63	1.02	0.87	0.85
Rate Per 1,000 - All Usage Over 5,000	0.88	1.36	1.32	1.14

**CITY OF LITCHFIELD PROPOSAL
WATER DIVISION
Test Year Ended December 31, 2000
PROPOSED CHANGES IN WATER RATES**

DESCRIPTION	PRESENT RATE	ORIGINAL FILING PROPOSED RATE		CITY PROPOSED RATE
4" METERS:				
Monthly Service Charge	\$101.20	\$144.25	\$132.00	\$120.72
Rate Per 1,000 - First 5,000	0.63	1.02	0.87	0.85
Rate Per 1,000 - All Usage Over 5,000	0.88	1.36	1.32	1.14
8" METERS:				
Monthly Service Charge	\$172.50	\$242.00	\$225.00	\$208.82
Rate Per 1,000 - First 5,000	0.63	1.02	0.87	0.85
Rate Per 1,000 - All Usage Over 5,000	0.88	1.36	1.32	1.14
10" METERS:				
Monthly Service Charge	\$254.25	\$362.00	\$330.00	\$302.94
Rate Per 1,000 - First 5,000	0.63	1.02	0.87	0.85
Rate Per 1,000 - All Usage Over 5,000	0.88	1.36	1.32	1.14
12" METERS & LARGER:				
Monthly Service Charge	\$345.00	\$483.00	\$450.00	\$444.62
Rate Per 1,000 - First 5,000	0.63	1.02	0.87	0.85
Rate Per 1,000 - All Usage Over 5,000	0.88	1.36	1.32	1.14
CONSTRUCTION WATER:				
Monthly Service Charge	No Rate	\$100.00	\$100.00	\$100.00
Rate Per 1,000 - All Usage	\$0.88	\$2.50	\$2.50	\$2.50
Meter Deposit	\$400.00	\$700.00	\$700.00	\$700.00

**CITY OF LITCHFIELD PARK PROPOSAL
WATER DIVISION
Test Year Ended December 31, 2000**

PROPOSED CHANGES IN OTHER RATES & CHARGES (1)

DESCRIPTION	PRESENT RATE	ORIGINAL FILING PROPOSED RATE	CITY PROPOSED RATE
SERVICE CHARGES:			
Establishment of Service:			
Regular Hours	\$15.00	\$20.00	\$20.00
After Hours	30.00	40.00	40.00
Re-Establishment of Service Within 12 Months:			
Monthly Minimum Times Months Disconnected for		No Change	No Change
Both Water and Sewer Service (R14-2-403)		No Change	No Change
Re-Connection of Service:			
Regular Hours	\$30.00	\$50.00	\$50.00
After Hours	45.00	65.00	65.00
Water Meter Test (If Correct)	\$25 Plus Cost of Test	No Change	No Change
Meter Re-read (If Correct)	5.00	No Change	No Change
NSF Check Charge	15.00	20.00	20.00
Late Charge	1 1/2% Per Mo.	No Change	No Change
Service Calls - Per Hour:			
After Hours Only	\$30.00	\$40.00	\$40.00
Deposit Requirements	ACC Rule R14-2-40	No Change	No Change
Deposit Interest	ACC Rule R14-2-40	No Change	No Change
REFUNDABLE METER INSTALLATION CHARGES:			
Scheduled Installation Charges:			
3/4" Meters	\$300.00	\$500.00	\$500.00
1" Meters	325.00	600.00	600.00
1 1/2" Meters	500.00	750.00	750.00
2" Meters	675.00	1,300.00	1,300.00
Unscheduled Installation Charges:			
Charges For Installation of Meters That are 4" or Greater In Diameter Shall be Based on Actual Costs.			

NOTE:

(1) Other Rates & Charges for Customers Receiving Both Water and Sewer Service are not Duplicative.

SURREBUTTAL EXHIBIT MAC-4

LP 3-1

	Water				Total
	NW 1/4	NE 1/4	SW 1/4	SE 1/4	
9					0
10					0
11					0
12					0
13					0
14					0
15					0
16					0
17					0
19					0
20					0
21					0
22	440	440	440	440	1760
23			95		95
27	12				12
28		20			20
29	471	471	471	471	1884
30	30				30
31					0
32					0
33					0
34	396	396	396	396	1584

5363

	Sewer				Total
	NW 1/4	NE 1/4	SW 1/4	SE 1/4	
9					0
10					0
11					0
12					0
13					0
14					0
15					0
16					0
17					0
19					0
20					0
21				1	1
22	400	400	400	400	1600
23			87		87
27	9				9
28		15			15
29	463	463	463	463	1852
30	14			1	15
31					0
32					0
33				1	1
34	382	382	382	382	1528

5107

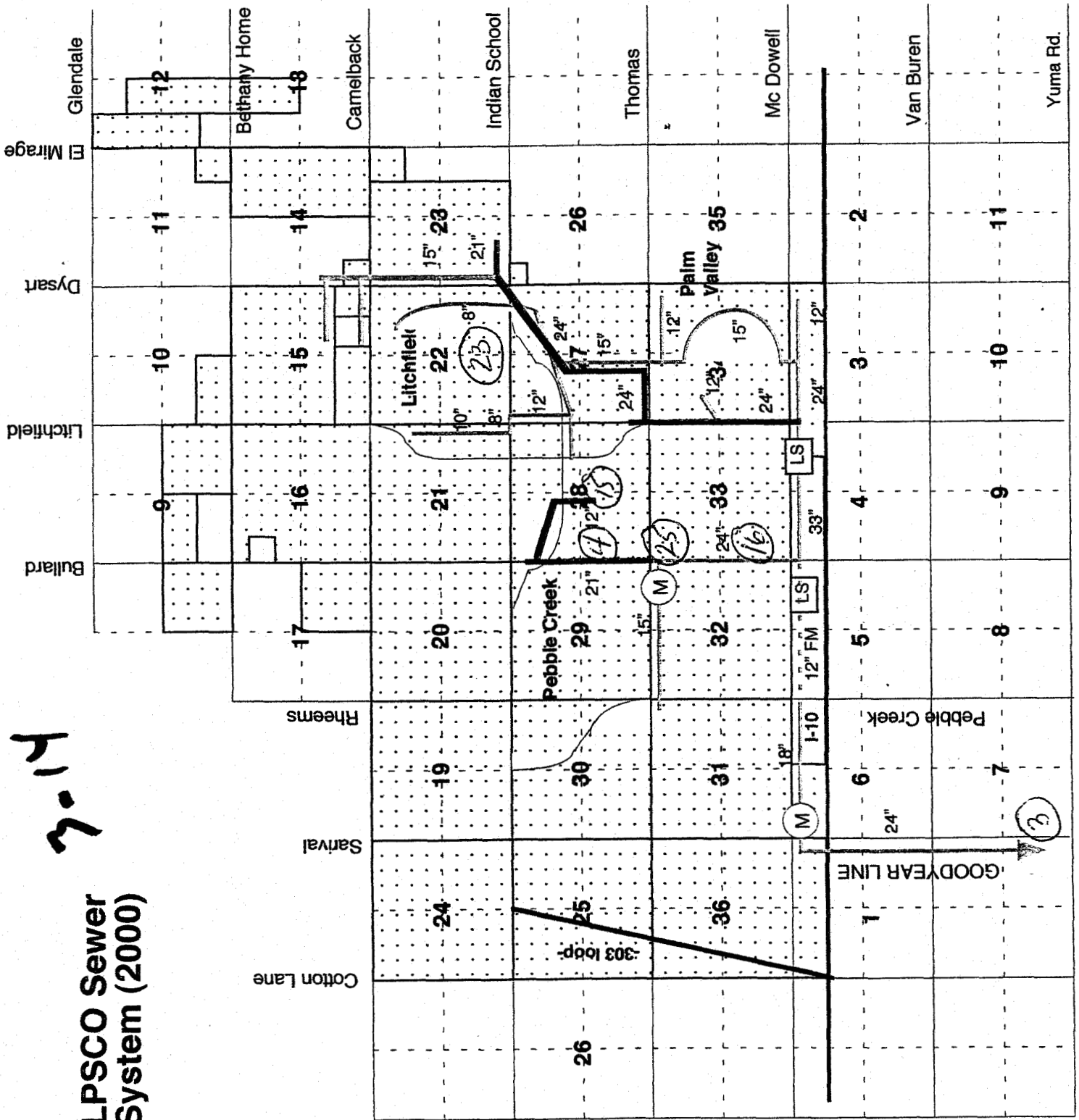
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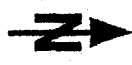
	Type of Development	Estimate number of customer at build- out	Location of development	Number of customers at test year	Number of customers at 10-31-01
Pebblecreek Phase II	Residential	1600	Section 31	0	0
Pebblecreek Phase II	Residential	1600	Section 30	9	116
Palm Valley phase II	Residential	1200	Section 33	0	6
Lowes Shopping Center	Commercial	15	Section 3	0	0
Hospital	Commercial	10	Section 3	0	0
Wigwam Creek	Residential	1627	Section 23	0	0
Wigwam Creek N	Residential	1197	Section 14	0	0
Dreaming Summit	Residential	1600	Section 15	0	12
Veranda	Residential	97	Section 15	0	40
luek	Residential	5	Section 15	0	1
Hospital	Commercial	16	Section 16	0	0
Apts	Residential	5	Section 23	0	0
Albertson Shopping center	Commercial	7	Section 23	0	0



LPSO Sewer System (2000)

7-14





General description of Project and need for Project	Location of Project	Needs of future/present customers	Service area most directly benefited**	Method of financing	Entities supplying capital*	Terms under which capital is supplied	Form of Capital	Copy of agreement	Amount Booked	Accum Depreciation	AIA agreement
23 Collection lines (To gain ownership of lines)	LP	Present	LP	Equity	2	n/a	plant	n/a	\$ 17,447	\$ 440	
24 Collection lines (To collect and move sewer flows to be processed)-REU	System wide	Present	ALL	Equity	2	n/a	plant	n/a	\$ 603,268	\$ 60,809	
25 Effluent lines (To dispose of effluent from plant)	Bullard	Present	ALL	Debt	5	25 yr debt	cash	IDA	\$ 67,722	\$ 1,707	
26 Hydrants (replace hydrants)	LP	Present	LP	Equity	1	n/a	cash	n/a	\$ 114,658	\$ 3,004	
27 Hydrants (New hydrants for dev.)	Palm Valley	Present	PV	Advance	2	10%/10yr	plant		\$ 86,548	\$ 7,080	Palm Valley
28 Hydrants (New hydrants for dev.)	Sunrise	Present	LP	Advance	3	10%/10yr	plant		\$ 45,000	\$ -	Sunrise
29 Land (To gain ownership of resv. site.)	Reservoir	Present	ALL	Equity	2	n/a	plant	n/a	\$ 656,928		n/a
30 Land (To gain ownership of well site.)	Well site TW 4, 5, 6	Present	ALL	Equity	2	n/a	plant	n/a	\$ 13,500		n/a
31 Water Mains (New lines for development)	Palm Valley	Present	PV	Advance	2	10%/10yr	plant		\$ 650,177	\$ 53,187	Palm Valley
32 Water Mains (New lines for development)	Sunrise	Present	LP	Advance	3	10%/10yr	plant		\$ 427,455	\$ -	Sunrise
33 Transmission lines (To distribute water)	144th Ave	Present	PV/PC	Debt	5	25 yr debt	cash	IDA	\$ 156,713	\$ 4,106	n/a
34 Transmission lines (To distribute water)	Laloma via Litchfield/Bethany to El Mirage	Present	NE/LP/ALL	Advance	4	10%/15yr/20yr	plant	n/a	\$ -	\$ -	Dreaming Summit
35 (Upsize Transmission line)	Laloma via Litchfield/Bethany to El Mirage	Present	ALL	Debt	5	25 yr debt	cash	see LP-2-16 ID,	\$ 246,177	\$ 6,450	n/a
36 Water Mains (To gain ownership of lines)	LP	Present	LP	Equity	2	n/a	plant	n/a	\$ 59,364	\$ 1,555	n/a
37 Transmission line (To distribute water)	Dyeart & Thomas	Present	ALL	Debt	5	25 yr debt	cash	see LP-2-16 ID,	\$ 80,072	\$ 2,098	n/a
38 Water Treatment System (To replace old chlorine system)	Booster Pump Station	Present	ALL	Equity	1	n/a	cash	n/a	\$ 82,310	\$ 2,157	n/a

* Entities supply Capital

- 1= LPSCO
2=SunCor
3=Fullon
4=Stardust
5=IDA

** Areas most directly benefited (LPSCO has divided up its service area into 4 parts for ease.)

LP=Litchfield Park
PV= Palm Valley
PC=Pebblecreek
NE=Northeast area
HS/MS=High School/Middle school
SR=Sunrise

missed in original 2-7